15. Observations on the working of the Income-tax Regulation.

Mr. V. V. N. K. Venu Prabhu (Member, Trading Classes, Quilon) spoke on the hardships suffered by the merchants consequent on the introduction of income-tax in the State. He said that, ever after the outbreak of the great European war, the trade and commerce of the whole world, and especially those of Travancore, were seriously handicapped, that, as a consequence, the merchants incurred severe loss, and that it was regrettable that the Income-tax Regulation was introduced at a time when they had not recovered from the after-effects of the war. He, therefore, requested that the operation of the Income-tax Regulation might be held in abeyance for at least five years. If the above request could not be granted, he prayed for the following measures of relief:—

(1) The rates of income-tax should be fixed as suggested by Mr. Adam Sait in the report of the Select Committee appointed for considering the Income-tax Bill, or the rates should at least be made equal to those adopted in British India at the time of the first introduction of income-tax there, which, he thought, were lower.

(2) The rates of tax should not vary with increasing incomes but should be made uniform and fixed for all taxable incomes. Otherwise, the rates for the higher incomes should be reduced to some extent. Higher rates might be levied on the incomes of officers who drew, besides salaries, travelling allowances, the allowances paid to them being very much more than what they should get.

(3) The system of levying income-tax on the basis of the previous year's income was hard; the tax should be levied on the actual income for the current year and that might be done before the end of Tulam of the succeeding year.

(4) In regard to the allowances admissible under the Income-tax Regulation for claiming deduction of income-tax, a set off was allowed only on amounts actually written off the accounts, and not in the case of all bad debts. Those debts could be recovered only by litigation; and the civil courts would allow only 6 per cent interest and would not give decrees for amounts paid to vakils in excess of regulation fees, nor for other special items of expenditure. A certain percentage of the profits should, therefore, be set off for bad debts.

(5) Allowances should also be made for the amounts paid by merchants for charities or set apart for the use of temples.

(6) In the case of assessees living within municipal limits, the tax paid by them to the Municipalities should be deducted from the amount of income-tax due from them.

(7) Ordinary merchants were not keeping regular accounts on the lines of those of registered joint stock companies but were writing up their accounts in the old way. If, therefore, any delay or mistake occurred in submitting their accounts to the authorities, the penal provisions of the Regulation should not be enforced against them for a period of one or two years; but the authorities should advise the merchants and put them in the way.

Dewan's reply.—I see you do not object to the principle of this tax. I may tell you that the Income-tax Bill is one of the few Bills whose principle was unanimously accepted by the Members of the Legislative Council, and there were differences of opinion only in respect of minor points. It cannot, therefore, be said that it is a Government measure. You object to the time of introduction of the Regulation as inopportune. This is a new objection and was not pressed when the law was passed. I am at a disadvantage in meeting this objection, as you have not intimated to me that you were going to raise this point. Nevertheless, I would try to answer your arguments. In regard to the time of introduction, I do not see how the assessee is at a disadvantage. The income-tax is a tax on income. If the assessee does not make a profit, he need not pay the tax; it is the Government that will suffer. The depression of trade and the fluctuations in the market cannot be foreseen. We cannot say to-day what the state of the market will be a month hence. If there is depression of trade, it is the income of the Government that will be affected.

LIBRARY ARCHIVES Kerala Legislative Assembly

I know that the rates in force here are much lower than those in British India. They are more or less on a par with those obtaining in other Indian States. The taxable limit has been put at Rs. 2,000 because the principle of the tax is that the rich should be taxed and not the poor who get just enough to live. It is the people who can save that are expected to contribute towards the tax.

You next spoke of the inconvenience of basing the assessment for this year on the previous year's earning. If you could suggest a better method, that would be considered. If the tax is to be based on this year's income, the income will have to be estimated before the year ends and that estimate is likely to be less approximate than the one based on the actual income of last year. A rebate will be given and an adjustment will be made when the year's income can be accurately fixed.

You then referred to the difficulty of keeping accounts. I do not think that the Regulation prescribes any particular form of accounts to be maintained by merchants. But the return has to be in some form. If there are minor difficulties, they will be remedied. It is for that purpose that a senior officer has been selected and appointed as Income-tax Commissioner. He will do the needful to prevent unnecessary hardship and to educate the people and the officers in the matter.

Your next point was with reference to bad debts. This has been considered over and over again in regard to the administration of the tax in other places, and it has been decided over and over again that bad debts cannot be set off until they have been actually written off the accounts. Until every resource has been exhausted and the amount has been actually written off, you cannot say that a debt is a bad debt.

Lastly, I am afraid you are not doing justice to the superior officers in the State service when you say that they are drawing more travelling allowances than they ought to get.

16. Exemption of the tax-free lands of Jenmies from the operation of the Income-tax Regulation.

Mr. Devan Krishnaru (Member, Jenmi, Quilon Division) objected to the imposition of income-tax on the income accruing from tax-free lands belonging to Jenmies. He said that, in ancient times, the Jenmies owned vast areas of tax-free or *thanathu* lands, but that, in course of time, they alienated most of their lands, retaining only a few *thanathu* lands. He added that the Jenmom lands had all along been allowed to be enjoyed by the Jenmies free from all interference in the same way as ordinary assessed lands. While, therefore, the latter had not to pay income-tax, there was no justification for the *thanathu* lands alone being made liable for the tax. He stated further that a Jenmi owed his position and status to his ownership of tax-free (Jenmom) lands, however small in extent, and that the imposition of income-tax on those lands would tend to detract from the prestige of the Jenmies and might, in course of time, be the cause of wiping off the name "Jenmi". The income-tax on *thanathu* lands would in many cases be greater than the land-tax and that circumstance would, by itself, tempt them to alienate their Jenmom lands and thus escape from the income-tax. The Member, therefore, requested that all the above circumstances be taken into consideration and that the income of the tax-free lands belonging to the Jenmies might be wholly exempted from liability to income-tax.

Dewan's reply.—The point you have raised has been considered already. The principle is that land which is totally exempted from land revenue must pay income-tax. What has been exempted by the Income-tax Regulation from tax under it is land revenue. That is the interpretation that has been put upon it in other places also, so far as I am aware. As the Income-tax Commissioner says that the extent of *thanathu* lands that the Jenmies still hold is very small, the income which is derivable from them will be liable to income-tax only if, along with the Jenmi's other income, it exceeds the taxable limit of Rs. 2,000, and as the rate of tax for Rs. 2,000 and below Rs. 5,000 is ten *cash* in the rupee, the income-tax to

LIBRARY ARCHIVES Kerala Legislative Assembly